

DEPARTMENT OF EDUCATION

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Findings:

Finding No. 2014-002:

Controls were not effective to ensure subrecipient compliance with allowable cost and matching requirements.

CFDA Title: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)

CFDA Number: 84.334

Federal Award Number: P334S110022

Federal Award Year: 2013, 2014

Federal Agency: Department of Education

Type of Finding: Material Weakness

Category of Finding: Subrecipient Monitoring

Analysis:

The South Dakota Department of Education (DOE) has a partnership agreement with Mid-Central Educational Cooperative (MEC) to carry out the GEAR UP activities/responsibilities. The agreement states, in part: "The State agrees to make monthly fixed installments in the amount of \$50,000. Additional installments will be made monthly based upon receipt of a detailed invoice submitted by the Grant Partner that documents actual expenses incurred and matching documentation." The DOE performs desk reviews of monthly billings; however, monitoring controls were ineffective to ensure compliance with the allowable costs/cost principles and matching requirements. In addition to our review of the DOE's subrecipient monitoring procedures, we reviewed certain records of the MEC. Based upon our review of those records, we developed audit findings 2014-003 and 2014-004. As a result, compliance with the allowable costs/cost principles and matching compliance requirements was not met.

RECOMMENDATION:

1. We recommend the Department strengthen controls to ensure subrecipients are in compliance with applicable grant agreement and compliance requirements of the GEAR UP grant.

Auditee's Corrective Action Plan:

The Department of Education agrees with Department of Legislative recommendations of strengthening controls to ensure this subrecipient's compliance. The Department has significantly increased its level of expenditure review in FY 2015 based on past experience with this subrecipient. If questionable or undocumented costs are noted during the expenditure review, the cost is removed and payment is withheld pending a satisfactory response from the subrecipient. When potential issues of compliance are noted the Department provides technical assistance to the subrecipient in an effort to correct these issues.

We will continue to strengthen our knowledge of the requirements by attending training and further examining the requirement of the grant. In addition, the Department will continue to provide technical assistance to the subrecipient and encourage its staff to strengthen its

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knowledge of the requirements by attending training and further examining the requirement of the grant.

Finding No. 2014-003:

The subrecipient did not comply with allowable costs and cost principles requirements.

CFDA Title: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)

CFDA Number: 84.334

Federal Award Number: P334S110022

Federal Award Year: 2013, 2014

Federal Agency: Department of Education

Type of Finding: Material Noncompliance

Category of Finding: Allowable Costs/Cost Principles

Questioned Costs: \$118,444.51

Analysis:

Direct Costs

All costs incurred under the GEAR UP program are subject to cost principles found in Title 2 of the Code of Federal Regulations (CFR), part 225. Per the grant agreement, this program is subject to U.S. Office of Management and Budget (OMB) Circular A-87. This circular establishes principles for allowability of costs charged to federal programs. In order for a cost to be allowable under OMB Circular A-87, the costs must be incurred. This circular does not allow costs to be charged to a program that are based on a budget, but are not yet incurred.

Due to ineffective controls described in finding number 2014-002, our review of a sample of monthly invoices from Mid-Central Educational Cooperative (MEC) indicated there was a total of \$31,258.51 in costs reimbursed by South Dakota Department of Education (DOE) that were unallowable. The DOE reimbursed \$31,228.91 in program costs based upon costs with no proof of actual expenses and additionally reimbursed \$29.60 in error.

Indirect Costs

The DOE also reimburses MEC on a monthly basis for indirect costs relating to the GEAR UP grant. The most recent approved indirect cost rate for FY 2013 was 9.8% using a distribution base of direct salaries and wages. However, the U.S. DOE General Administrative Regulations (EDGAR) limit the indirect cost rate to a maximum of 8% for this program. Due to the ineffective controls described in finding number 2014-002, indirect costs approved and reimbursed by the DOE from MEC used the 9.8% rate on a distribution base of salaries and wages and an overpayment of indirect costs of \$12,144.45 occurred. The 9.8% rate was also used on a distribution base of employee benefits, travel, supplies, and other expenses for an overpayment of \$42,470.72. As a result, a total overpayment of indirect costs of \$54,615.17 occurred.

Payroll

U.S. Office of Management and Budget (OMB) Circular A-87(8)(h) states:

“(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix...

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(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a.) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b.) They must account for the total activity for which each employee is compensated,
- (c.) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d.) They must be signed by the employee.
- (e.) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes...”

The DOE reimburses MEC on a monthly basis for personnel services. The DOE receives an Excel file from MEC that documents each employee that worked on the GEAR UP grant, the amount charged to the grant for that employee, and the percentage of time that employee worked on the grant. The Excel file does not comply with OMB Circular A-87 which requires payroll documentation to reflect total activity for which the employee is compensated. The DOE did not have effective controls, as described in finding number 2014-002, to identify this noncompliance.

MEC employees complete effort logs in which the employee records a description of work completed on a daily basis and the hours worked. There were no effort logs prepared by two Senior Advisors until the week ending October 28, 2013. The GEAR UP grant was charged a total of \$32,570.83 for these two employees for the months of July, August, September, and October 2013. Due to the ineffective internal controls described in finding number 2014-002, the DOE reimbursed all payroll costs relating to these employees during that time period. As there were no effort logs, or equivalent personnel activity reports, to substantiate their time for these four months, these are questioned costs.

RECOMMENDATIONS:

- 2. We recommend the Department implement controls to ensure compliance with allowable cost requirements.
- 3. We recommend the Department determine whether reimbursement of questioned costs from MEC is appropriate.

Auditee's Corrective Action Plan:

The Department of Education agrees with Department of Legislative Audit recommendations of strengthening controls to ensure this subrecipient's compliance. The Department has significantly increased its level of expenditure review in FY 2015 based on past experience with this subrecipient. If questionable or undocumented costs are noted during the expenditure review, the cost is removed and payment is withheld pending a satisfactory response from the subrecipient. When potential issues of compliance are noted the Department provides technical assistance to the subrecipient in an effort to correct these issues.

We will continue to strengthen our knowledge of the requirements by attending training and further examining the requirement of the grant. In addition, the Department will provide technical assistance to the subrecipient and encourage its staff to strengthen its knowledge of the requirements by attending training and further examining the requirement of the grant.

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The Department will ask the subrecipient to clarify or provide additional supporting documentation for the question costs. The Department will review the subrecipient's response and make a determination whether reimbursement or other actions are appropriate. The Department will also ask the subrecipient to provide a corrective action plan, if appropriate, to ensure compliance with federal cost principles.

The Department has requested that the subrecipient reimburse the over recovery of indirect costs it received due to the application of its indirect cost rate to the incorrect direct cost base.

Finding No. 2014-004:

The subrecipient did not comply with matching, level of effort, and earmarking requirements.

CFDA Title: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)

CFDA Number: 84.334

Federal Award Number: P334S110022

Federal Award Year: 2014

Federal Agency: Department of Education

Type of Finding: Material Noncompliance

Category of Finding: Matching, Level of Effort, Earmarking

Analysis:

Title 34 of the Code of Federal Regulations (CFR), part 694.7 specifies that at least 50 percent of the GEAR UP project costs be matched with cash or in-kind contributions from non-Federal sources. We identified three different issues relating to matching non-compliance, as described below.

Match Contribution Amount

The Department of Education (DOE) has partnered with Mid-Central Education Cooperative (MEC) for the administration of GEAR UP and consequently matching is documented at MEC. This partnership agreement specified a match of \$3,567,649 would be provided by MEC for the project period of September 26, 2012 through September 25, 2013. This agreement also specified that:

“Documentation of matching contributions must contain adequate source documentation for the claimed cost sharing, provide clear valuation of in-kind matching and provide support of cost sharing by grant partners. Matching contributions must be valued in accordance with U.S. Office of Management and Budget (OMB) circulars and the Education Department General Administrative Regulations (EDGAR).”

We reviewed the non-Federal matching amounts recorded for the 2012-2013 project year and determined that MEC under-matched the amount in the agreement by \$606,438.32 or 17%. The DOE did not adequately review total non-federal match amounts for the program year to ensure MEC had met compliance with the agreement.

Duplicate Match Contribution Records

34 CFR 80.24(b)(3) states:

“Neither costs nor the values of third party in-kind contributions may count towards satisfying a cost sharing or matching requirement of a grant agreement if they have been

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or will be counted towards satisfying a cost sharing or matching requirement of another Federal grant agreement, a Federal procurement contract, or any other award of Federal funds.”

In our review of a sample of non-Federal matching contributions, we identified two matching contributions that were both counted toward matching requirements for each of two different Federal grant agreements.

Documentation of In-Kind Match

34 CFR 80.24(b)(6) states:

“Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived.”

34 CFR 80.24(d) states:

“Valuation of third party donated supplies and loaned equipment or space. (1) If a third party donates supplies, the contribution will be valued at the market value of the supplies at the time of donation...”

34 CFR 74.23(f) states:

“Donated supplies may include such items as expendable equipment, office supplies, laboratory supplies, or workshop and classroom supplies. Value assessed to donated supplies included in the cost sharing or matching share shall be reasonable and shall not exceed the fair market value of the property at the time of the donation.”

Due to ineffective controls described in finding number 2014-002, our review identified an individually significant in-kind matching contribution that was not adequately supported. MEC provided a letter to the DOE from Microsoft valuing a contribution of \$2 million for providing 500 DreamSpark Premium software licenses. The letter did not indicate how the value was derived. Based upon our review of the retail price listed on the Microsoft website of \$499 per one year license, we compute a matching contribution value of \$249,500, resulting in a difference in value of \$1,750,500. In addition, the records of the in-kind match did not identify what students benefited from using the software.

As a result, the Department was not in compliance with federal matching requirements.

RECOMMENDATION:

4. We recommend that the Department implement procedures to monitor subrecipient matching amounts to ensure compliance with federal requirements.

Auditee's Corrective Action Plan:

- Match Contribution Amount – The agreement with Mid Central should not have been written to indicate a specific dollar amount. This amount was based on the budgeted amount and actual expenditures were less than anticipated, which resulted in a lesser amount of match required. The agreement should have been written to reflect a 1 to 1 match based on actual

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expenditures. The current agreement will be amended to state that Mid Central needs to provide a match contribution of 1 to 1 based on all grant expenditures (including the State's), instead of a specific figure.

- Duplicate Match – We concur with the finding and recommendation to implement procedures to monitor subrecipients matching amount to avoid duplication and utilization of the correct forms. The Department will monitor and examine match documentation for duplication.
- Documentation of In-Kind Match – The in-kind contribution we show the match is adequately met if not exceeds the amount needed to satisfy the matching requirements for the grant. The FMV of the DreamSpark Premium is not a license but a subscription to 579 separate software applications. The FMV of these applications is valued by Microsoft at \$300,000 per student with the knowledge that not every software application will be used but none the less purchased. With this knowledge the FMV of each of these applications would be applicable to match since we are looking at the FMV of the applications that would be purchased.